Rates of value added tax

2018/0005(CNS) - 18/01/2018 - Legislative proposal

PURPOSE: to grant Member States greater flexibility in setting value-added tax (VAT) rates.

PROPOSED ACT: Council Directive.

ROLE OF THE EUROPEAN PARLIAMENT: the Council adopts the act after consulting the European Parliament but without being obliged to follow the opinion of the European Parliament.

BACKGROUND: the rules on VAT rates as currently contained in the VAT Directive (Council Directive 2006/112/EC) were designed more than two decades ago and based on the original principle.

In its <u>2016 VAT Action Plan</u>, the Commission proposed to replace the current transitional arrangements for the taxation of trade between Member States by **definitive arrangements based on the principle of taxation in the Member State of destination** in order to create a robust single European VAT area.

At the same time the Commission announced that taxation at destination would allow to **grant Member States more flexibility in setting VAT rates** and that all currently existing reduced rates, including derogations, legally applied in Member States should be maintained and could be made available to all Member States, ensuring equal treatment.

The current initiative is part of the Fair Taxation package for the creation of a single EU value added tax area (VAT). The package includes two proposals to modify the VAT Directive, one as regards the <u>definitive VAT system</u> for cross-border trade and one adopted together with this initiative as regards <u>small enterprises</u>, and a proposal for a Council Regulation on <u>combating fraud</u> in the field of VAT.

IMPACT ASSESSMENT: the preferred option would address the issue of derogations by removing the constraints that created the need for such derogations, namely the list of goods and services to which reduced VAT rates can be applied (Annex III) and the 5% minimum for additional reduced rates.

CONTENT: the **proposed amendment to the VAT Directive** provides for greater flexibility for the Member States to benefit from reduced and zero rates as they existed in other Member States.

The proposal allows Member States, in addition to the two reduced rates of a minimum of five percent and an exemption with deductibility of the VAT paid at the preceding stage currently allowed, to apply another reduced rate between 5% and 0%.

Member States will have to respect that those reduced rates and the exemption must be for the benefit of the final consumer and must be in the general interest.

The list of goods and services eligible for reduced VAT rates (Annex III) would be deleted and replaced by a **new negative list of products** (Annex IIIa) at which the **standard rate of 15%** or a higher rate would still be applied.

Moreover, Member States shall ensure that the weighted average VAT rate applied to those transactions for which VAT cannot be deducted always exceeds 12%.

By 31 December 2026 and every five years thereafter, the Commission shall submit to the Council a **report** on the scope of Annex IIIa, accompanied by any proposals to amend that Annex, where necessary.